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**CHRISTIAN SERVICE UNIVERSITY COLLEGE  
KUMASI, GHANA**

**CSUC SCHOOL OF BUSINESS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**END OF SECOND SEMESTER EXAMINATIONS – 2018/19 ACADEMIC YEAR**

**LEVEL 300**

**COURSE CODE: COURSE TITLE**

**CSBF 324: MANAGERIAL ECONOMICS**

**MAY, 2019**

**100 MARKS**

**TIME ALLOWED: 2 HOURS 30 MIN.**

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**GENERAL INSTRUCTIONS TO CANDIDATES:**

- This paper consists of **two** sections, a and b
- Section a consists of multiple choice questions. each question carries 1 mark. answer all the questions in this section
- Answer two questions from section b. each question in this section carries 20 marks each
- Write your index number on top of the question paper and every page of the answer booklet used
- Do not take away any examination material, including question paper provided to you, unless you are told to do so.

**EXAMINER: Joseph Yensu**

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**SECTION A: MULTIPLE-CHOICE (50 marks)**

**Circle the letter of the most appropriate response in each case**

- 1 Economic theory is a valuable tool for business decision making because it .....
  - a. identifies for managers the essential information for making a decision.
  - b. assumes away the problem.
  - c. creates a realistic, complex model of the business firm.
  - d. provides an easy solution to complex business problems.
- 2 Economic profit .....
  - a. is a theoretical measure of a firm's performance and has little value in real world decision making.
  - b. can be calculated by subtracting implicit costs of using owner-supplied resources from the firm's total revenue.
  - c. is negative when costs exceed revenues.
  - d. is generally larger than accounting profit.
- 3 Economic profit is the difference between .....
  - a. total revenue and the opportunity cost of all of the resources used in production.
  - b. total revenue and the implicit costs of using owner-supplied resources.
  - c. accounting profit and the opportunity cost of the market-supplied resources used by the firm.
  - d. accounting profit and explicit costs.
- 4 When economic profit is positive, .....
  - a. total revenue exceeds total economic cost.
  - b. the firm's owners have successfully solved the principal-agent problem.
  - c. the firm's owners experience an increase in their wealth.
  - d. both *a* and *c*
  - e. all of the above

- 5 Consider a firm that employs some resources that are owned by the firm. When accounting profit is zero, economic profit .....
  - a. must also equal zero.
  - b. is sure to be positive.
  - c. must be negative and shareholder wealth is reduced.
  - d. cannot be computed accurately, but the firm is breaking even nonetheless.
  - e.
  
- 6 Which of the following statements is false?
  - a. Explicit costs of using market-supplied resources entail an opportunity cost equal to the dollar cost of obtaining the resources in the market.
  - b. When economic profit is zero, the firm's owners could NOT have done better putting their resources in some other industry of comparable risk.
  - c. If economic profit is positive, accounting profit must also be positive.
  - d. If economic profit is negative, accounting profit must also be negative.
  - e. None of the above statements is false.
  
- 7 The value of a firm is.....
  - a. smaller the higher is the risk premium used to compute the firm's value.
  - b. larger the higher is the risk premium used to compute the firm's value.
  - c. the price for which the firm can be sold minus the present value of the expected future profits.
  - d. both *b* and *c*
  
- 8 Suppose Marv, the owner-manager of KFC, earned GH¢72,000 in revenue last year. Marv's explicit costs of operation totaled GH¢36,000. Marv has a Bachelor of Science degree in mechanical engineering and could be earning GH¢30,000 annually as a mechanical engineer.
  - a. Marv's implicit cost of using owner-supplied resources is GH¢36,000.
  - b. Marv's economic profit is GH¢ 36,000.
  - c. Marv's implicit cost of using owner-supplied resources is GH¢ 30,000.
  - d. Marv's economic profit is GH¢ 6,000.
  - e. both *c* and *d*.
  
- 9 A risk premium is
  - a. a measure calculated to reflect the riskiness of future profits.
  - b. subtracted from the discount rate when calculating the present value of a future stream of risky profits.
  - c. lower the more risky the future stream of profits.
  - d. an additional compensation paid to the workers of a business enterprise.
  
- 10 Owners of a firm want the managers to make business decisions that will
  - a. maximize the value of the firm.
  - b. maximize expected profit in each period of operation.
  - c. maximize the market share of the firm.



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- d. both *a* and *b* are correct when revenue and cost conditions in one time period are independent of revenues and costs in future time periods.
  - e. choices *a* and *b* are generally not equivalent, so managers must always seek to maximize market share.
- 11 The principal-agent problem arises when
- a. the principal and the agent have different objectives.
  - b. the principal cannot enforce the contract with the agent or finds it too costly to monitor the agent.
  - c. the principal cannot decide whether the firm should seek to maximize the expected future profits of the firm or maximize the price for which the firm can be sold.
  - d. both *a* and *b*
  - e. both *a* and *c*
- 12 Moral hazard
- a. occurs when managers pursue maximization of profit without regard to the interests of society in general.
  - b. exists when either party to a contract has an incentive to cancel the contract.
  - c. occurs only rarely in modern corporations.
  - d. is the cause of principle-agent problems.
- 13 A price-taking firm can exert no control over price because
- a. the firm's demand curve is downward sloping.
  - b. of a lack of substitutes for the product.
  - c. the firm's individual production is insignificant relative to production in the industry.
  - d. many other firms produce a product that is nearly identical to its product.
  - e. both *c* and *d*
- 14 Which of the following statements is true?
- a. Shareholders as a group have little or no ability to force managers to pursue maximization of the firm's value.
  - b. The effectiveness of a board of directors in monitoring managers will be enhanced by appointing members from the firm who are well-informed about the management problems facing the firm.
  - c. Reducing the amount of debt financing can reduce the divergence between the shareholders' interests and the owner's interests.
  - d. Equity ownership by managers is thought to be one of the most effective corporate control mechanisms.
  - e. All of the above are true.
- 15 When a firm is a price-taking firm.....
- a. the price of the product it sells is determined by the intersection of the market demand and supply curves for the product.
  - b. raising the price of the product above the market-determined price will cause sales to fall nearly to zero.
  - c. many other firms produce a product that is identical to the output produced by the rest of the firms in the industry.
  - d. all of the above

- 16 A price-setting firm .....
  - a. can lower the price of its product and sell more units.
  - b. can raise the price of its product and sell fewer units but will not lose all of its sales.
  - c. possesses market power.
  - d. sells a product that is somehow differentiated from the product sold by its rivals or sells in a limited geographic market area with only one or a few sellers.
  - e. all of the above
  
- 17 A market .....
  - a. lowers the transaction costs of doing business.
  - b. is any arrangement that brings buyers and sellers together to exchange goods or services.
  - c. is an institution used exclusively by capitalist nations.
  - d. both *a* and *b*
  - e. both *b* and *c*
  
- 18 Which of the following is NOT one of the features characterizing market structures?
  - a. The number and size of firms
  - b. The likelihood of new firm's entering a market
  - c. The level of capital investment in research and development
  - d. The degree of product differentiation
  
- 19 In a perfectly competitive market .....
  - a. all firms produce and sell a standardized or undifferentiated product.
  - b. the output sold by a particular firm may be quite different from the output sold by the other firms in the market.
  - c. firms are price-setters.
  - d. it is difficult for new firms to enter the market due to barriers to entry.
  
- 20 Which of the following is NOT a characteristic of monopoly market structures?
  - a. A single firm produces the entire market output.
  - b. The greater the ability of consumers to find imperfect substitutes for the firm's product the lower will be the firm's market power.
  - c. There are no barriers to entry.
  - d. No close substitutes for the product are available.
  
21. If the price of a complement decreases, all else equal,
  - a. quantity demanded will decrease.
  - b. quantity supplied will decrease.
  - c. demand will increase.
  - d. demand will decrease.
  - e. supply will increase.
  
- 22 The market demand curve for a given good shifts when there is a change in any of the following factors EXCEPT
  - a. the price of the good.
  - b. the level of consumers' income.
  - c. the prices of goods related in consumption.
  - d. the tastes of consumers.



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- 23 Which of the following would lead to a DECREASE in the demand for tennis balls?
- An increase in the price of tennis balls
  - A decrease in the price of tennis rackets
  - An increase in the cost of producing tennis balls
  - A decrease in average household income when tennis balls are a normal good
  - None of the above
- 24 If input prices increase, all else equal,
- quantity supplied will decrease.
  - supply will increase.
  - supply will decrease.
  - demand will decrease.
- 25 Which of the following would increase the supply of corn?
- an increase in the price of pesticides
  - a decrease in the demand for corn
  - a fall in the price of corn
  - a severe drought in the corn belt
  - a decrease in the price of wheat
- 26 When Sonoma Vineyards reduces the price of its Cabernet Sauvignon from GH¢ 15 a bottle to GH¢ 12 a bottle, the result is an increase in
- the demand for this wine.
  - the supply of this wine.
  - the quantity of this wine demanded.
  - the quantity of this wine supplied.
- 27 Which of the following will cause a change in quantity supplied?
- a change in input prices
  - technological change
  - a change in the number of firms in the market
  - a change in the market price of the good
- 28 When the average price of videocassette recorders (VCRs) fall, the result is
- an increase in supply of VCRs.
  - an increase in the quantity of VCRs supplied.
  - an increase in the quantity of VCRs demanded.
  - a decrease in the quantity of VCRs demanded.
- 29 Use the following general linear demand relation to answer the following question:

$$Q_d = 680 - 9P + 0.006M - 4P_R$$

where  $M$  is income and  $P_R$  is the price of a related good,  $R$ . From this relation it is apparent that the good is:

- an inferior good
- a substitute for good  $R$
- a normal good
- a complement for good  $R$
- both  $c$  and  $d$

- 30 Use the following general linear demand relation to answer the following question:

$$Q_d = 680 - 9P + 0.006M - 4P_R$$

where  $M$  is income and  $P_R$  is the price of a related good,  $R$ . If  $M = \text{GH¢ } 15,000$  and  $P_R = \text{GH¢ } 20$ , the demand function is

- a.  $P = 690 - 9Q_d$ .
  - b.  $Q_d = 690 - 9P$ .
  - c.  $Q_d = 680 - 9P$ .
  - d.  $P = 680 - 9Q_d$ .
  - e.  $Q_d = 800 - 19P$ .
- 31 The Interior Department recently announced that it will increase the entrance fees at Kakum National Park in order to increase park revenues. The Interior Department must believe that
- a. park goers are very responsive to price changes.
  - b. the demand for park services is elastic.
  - c. the percentage increase in fees will be greater than the percentage decrease in the number of park visitors.
  - d. demand is unitary elastic, and thus the number of visitors will NOT decrease.
- 33 Which of the following will NOT affect the elasticity of demand for a product?
- a. the number of substitutes
  - b. how long consumers have to adapt to price changes
  - c. the cost of producing the product
  - d. the percentage of the consumer's budget spent on the product
  - e. all of the above will affect the elasticity of demand for a product
- 33 If the demand for umbrellas is price inelastic,
- a. changes in price do not affect the number of umbrellas demanded.
  - b. if more umbrellas are sold as the result of a price decrease, total expenditures by consumers on umbrellas will decrease.
  - c. the percentage change in price is less than the percentage change in quantity demanded.
  - d. the percentage change in quantity demanded is greater than the percentage change in price.
  - e. none of the above
- 34 When the price of corn dogs is GH¢0.50, 10,000 corn dogs are demanded. When the price of corn dogs is \$1.20, 5,000 are demanded. What is the price elasticity of demand for corn dogs?
- a. -0.40
  - b. -0.81
  - c. -1.20
  - d. -1.40
- 35 Suppose that the Kumasi Asante Kotoko management is considering a plan in which fans who donate blood can attend games for GH¢35 instead of the usual GH¢40. If both ticket revenues and blood donations rise with this plan, which of the following is true?
- a. The demand for Kumasi Asante Kotoko tickets is price elastic.
  - b. The demand for Kumasi Asante Kotoko tickets is price inelastic.
  - c. The demand for blood donations is price elastic.
  - d. The demand for blood donations is price inelastic.

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- 36 If the price elasticity of DVD recorders is  $-0.3$  and price increases 20%, what happens to the quantity of DVD recorders demanded?
- quantity decreases by 26%
  - quantity decreases by 6%
  - quantity increases by 15%
  - quantity increases by 21%
- 37 If the price elasticity of demand for a good is  $-0.8$  and quantity demanded decreases by 40%, price must have
- increased by 5%.
  - increased by 32%.
  - decreased by 20%.
  - decreased by 32%.
  - none of the above
- 38 The demand for heart surgery is price inelastic. So it follows that
- the percentage change in price is less than the resulting percentage change in quantity demanded.
  - if the price of heart surgery increases, total expenditure by consumers on heart surgery will rise.
  - changes in price do not affect the number of operations demanded.
  - both a and b
  - all of the above
- 39 If the quantity of KO motorcycles demanded decreases by 10% when the price increases by 20%, the price elasticity of demand for KO motorcycles is:
- $-0.50$
  - $-2.0$
  - $-10.0$
  - $-20.0$
- 40 If the quantity of gadgets demanded increases when the price of gadgets decreases
- gadgets and gadgets are substitutes.
  - gadgets and gadgets are complements.
  - gadgets are normal goods, while gadgets are inferior goods.
  - gadgets are normal goods, while gadgets are inferior goods.
- 6-40 If the price elasticity of demand for KO motorcycles is  $-1.2$  and quantity demanded increases by 24%, price must have
- decreased by 20%.
  - increased by 20%.
  - decreased by 28.8%.
  - decreased by 0.05%.
- 41 Which of the following is NOT a condition of a perfect competition:
- products produced by rival firms are perfect substitutes
  - any individual firm cannot affect market supply
  - unrestricted entry and exit
  - industry sales are small
  - each firm has complete knowledge about production and prices
- 42 In a perfectly competitive market
- a firm must lower price to attract more customers.
  - the additional revenue from selling one more unit of output is less than price.
  - demand facing the industry is perfectly elastic.



- d. all of the above
- e. none of the above

- 43 For a price-taking firm, marginal revenue
- a. is the addition to total revenue from producing one more unit of output.
  - b. decreases as the firm produces more output.
  - c. is equal to price at any level of output.
  - d. both a and b
  - e. both a and c

- 44 Total cost schedule for a competitive firm:

Output	Total Cost
0	GHC 10
1	60
2	80
3	110
4	165
5	245

If market price is GHC60, how many units of output will the firm produce?

- a. Zero units of output because the firm shuts down.
- b. 1 unit of output.
- c. 2 units of output.
- d. 3 units of output.
- e. none of the above.

- 45 Total cost schedule for a competitive firm:

Output	Total Cost
0	GHC 10
1	60
2	80
3	110
4	165
5	245

If market price is GHC60, what is the maximum profit the firm can earn?

- a. -GHC10
- b. Zero profit, the firm shuts down
- c. GHC75
- d. GHC80
- e. GHC85

- 46 Which of the following is a characteristic of a monopoly market?

- a. one firm is the only supplier of a product for which there are no close substitutes
- b. entry into the market is blocked
- c. the firm can influence market price
- d. all of the above

- 47 In a monopoly market,

- a. other firms have no incentive to enter the market.
- b. profits will always be positive because the firm is the only supplier in the market.
- c. the demand facing the firm is downward-sloping because it is the market demand.
- d. a and b
- e. none of the above

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- 48 A monopolist
- a. can raise its price without losing any sales because it is the only supplier in the market.
  - b. can earn a greater than normal rate of return in the long run.
  - c. always charges a price that is higher than marginal revenue.
  - d. both a and b
  - e. both b and c
- 49 A firm with market power
- a. can increase price without losing all sales.
  - b. faces a downward-sloping demand curve.
  - c. is the only seller in a market.
  - d. both a and b
  - e. all of the above
- 50 One method of measuring the extent of a firm's market power is
- a. the Lerner index.
  - b. price elasticity of demand for the firm's product.
  - c. income elasticity of demand for the firm's product.
  - d. both a and b
  - e. all of the above